

February 15, 2001

Mr. Michael E. Lurie  
Managing Director  
Merrill Lynch  
2 World Financial Center  
7<sup>th</sup> Floor  
New York, NY 10281-6100

Re: Balkhouse Associates

Dear Mr. Lurie:

Merrill Lynch is the General Partner of Balkhouse Associates, a limited partnership, that leases a baking plant, milk processing facility and warehouse to The Kroger Co. Our policy today is to own facilities instead of leasing them. This is an old tax oriented sale and leaseback financing that we believe the economics in 2001 are favorable for both parties to unwind this transaction.

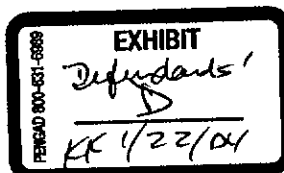
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The offer is timely to us because we are currently reviewing our five-year capital expenditures for existing and new facilities with our continuing expanding store base. It is important in our analysis to know whether we will be able to own these properties by July 1.

Enclosed is a short summary of the transaction. We are hopeful that our offer is acceptable to the Partnership and look forward to hearing from you at your earliest convenience.

Sincerely,

JDP/emm  
Enclosure



PM 00599

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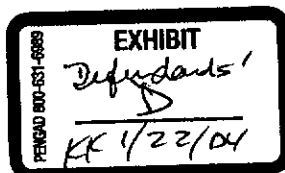
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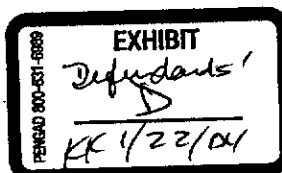
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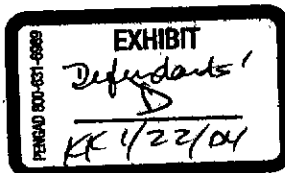
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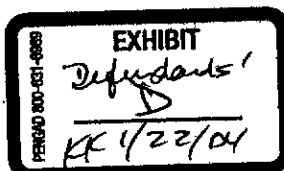
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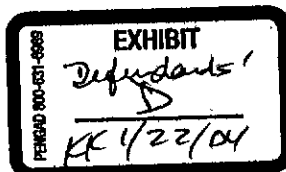
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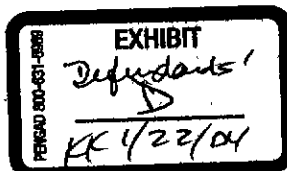
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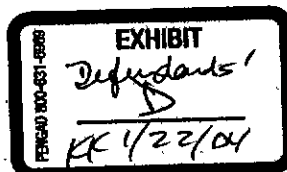
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